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SUBJECT: VIETNAM TRADE IN 2007: U.S. EXPORTS UP 73 PERCENT, TOTAL TRADE ABOVE \$100 BILLION

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**¶1.** Summary. Vietnam's total trade with the world broke the \$100 billion mark in 2007, capping 16 consecutive years of expanding trade with a 29 percent increase over 2006. U.S. exporters also gained in 2007 as U.S. exports grew 73 percent, three times as fast as Vietnamese exports to the United States. Compared to 2006, U.S. vehicle exports were five times as high and U.S. agricultural exports to Vietnam more than doubled. Other U.S. export categories grew significantly as well, such as diverse machinery, plastics and iron and steel. The United States remains Vietnam's largest export destination, topping \$10 billion dollars in 2007. Vietnam remains a net importer and 2007 was the seventeenth year in a row in which it ran a trade deficit. Vietnam's trade deficit with the world more than doubled in 2007, reaching a total of \$12.4 billion. End Summary.

TOTAL TRADE VOLUME

**¶2.** In 2007 Vietnam's total trade volume in goods with the world passed the \$100 billion mark for the first time, reaching \$109.2 billion, a 29 percent increase over the \$84.7 billion reached in **¶2006**. Total trade in services over the same period increased from \$10.22 billion to \$12.43 billion. Total trade volume in Vietnam has increased every year for the last 16 years.

**¶3.** This cable uses trade U.S. statistics compiled by the Department of Commerce and Census Bureau for most of the section on our bilateral trade with Vietnam. The section on Vietnam's trade with the world uses the newly-released 2007 numbers compiled by General Statistics Office (GSO) of the Government of Vietnam (GVN). One explanation for the difference between figures from Vietnam's GSO and those compiled by the USG is the time lag due to sea transport of the good and the fact that a good that counts as an export by Vietnam is calculated by GSO on an free on board (FOB) basis, while the same good under U.S. statistics is counted as an import whose value includes cost, insurance and freight (CIF) in its import data.

U.S. EXPORTS TO VIETNAM POST RECORD GAINS

**¶4.** In terms of single countries, the United States is Vietnam's third largest trade partner, after China and Japan, and its largest export market. Total two-way trade in goods with the United States in 2007 was \$12.53 billion up 29 percent from the \$9.67 billion total in 2006, according to the U.S. Department of Commerce

end-of-the-year numbers released in February 2008.

¶15. One of the most positive stories of the 2007 trade figures is the surge in U.S. exports to Vietnam, which increased by 73 percent to \$1.9 billion from \$1.1 billion in 2006, as measured by the USG. U.S. agricultural exports, in particular, showed remarkable growth. Cotton exports, used as inputs for Vietnam's garment industry, grew 92 percent, soybean exports were up 1,480 percent, and wheat exports up 1,120 percent. A wide range of U.S. commodities including hardwood, wheat, hides and skins, soybean meal tree nuts, fresh fruit, and poultry and red meats, also posted record gains in 2007.

¶16. Taken together with fishery and forestry exports, U.S. agricultural exports from the United States more than doubled in value from 2006 to a record \$608.2 million, a 111 percent rate of growth over four times larger than the average growth worldwide of U.S. agricultural, fishery and forestry exports (23 percent).

¶17. The categories constituting industrial and agricultural machinery and equipment were overall the most valuable U.S. exports to Vietnam with \$330.6 million in sales, a 46 percent increase over 2006 (\$226 million). U.S. vehicle exports were another success story as the second most valuable two-digit harmonized system category of U.S. export to Vietnam at \$142 million, as Vietnam increased its purchases of imported American vehicles from 110 in 2006 to 5,509 in 2007. Another export sector that exploded in 2007 was in U.S. exports of primary materials for the garment industry increased 85 percent increase from 2006 (\$65 million) to 2007 (\$120 million).

¶18. Plastics were the third most valuable category of U.S. exports to Vietnam at \$125 million (an increase of 45 percent from 2006's \$45 million). Rounding up the top five U.S. exports to Vietnam were wood products, which reached \$97.2 million in 2007, a 62.5 percent increase over 2006 (\$60 million).

¶19. Although both United States and Vietnamese export numbers were up in 2007, the growth of U.S. exports was three times higher than

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the rate of growth in U.S. imports from Vietnam. According to the U.S. Commerce Department statistics, U.S. imports from Vietnam were up by 24 percent in 2007 to \$10.63 billion, from \$8.57 billion in ¶2006. Notwithstanding impressive U.S. export growth, the United States continues to have a trade deficit with Vietnam, which measured \$8.7 billion in 2007.

¶10. Garments were the largest traded good between Vietnam and the United States in 2007, and accounted for 55 percent of all Vietnamese exports to the United States, at a value of \$4.46 billion. The sector picked up considerably in the second half of 2007, closing the year 47% higher than in 2006, when exports reached \$3.04 billion.

¶11. Exports of finished wood products to the United States also went up by 27.5 percent, reaching \$948.5 million in 2007. Other key Vietnamese exports to the United States were footwear (\$885.1 million), and fishery products (\$728.5 million), all of which surpassed the numbers for 2006. Crude oil (\$782.2 million) remained a significant export earner for Vietnam although exports to the United States fell 23 percent from 2006.

#### VIETNAM'S TRADE DEFICIT WITH THE WORLD

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¶12. Vietnam's trade deficit with the world more than doubled from \$5.1 billion in 2006 to \$12.4 billion in 2007. Vietnam has been running a trade deficit since 1993, and 2007's was Vietnam's third largest deficit on record. On a bilateral basis, Vietnam has trade deficits with China (\$9.1 billion), Taiwan (\$5.8 billion), Singapore (\$5.4 billion) and South Korea (\$4 billion).

¶13. Most economists attribute the deficit to Vietnam's rising demand for imports needed to sustain economic growth, particularly in the manufacturing and construction sectors. Despite being a crude oil producer (Southeast Asia's largest, after Indonesia and Malaysia),

Vietnam lacks refining capacity and thus relies on fuel imports.

¶14. The GVN has minimized the negative impact of the trade deficit citing the need for imports to sustain economic growth. In 2007 and early 2008, however, some figures in the GVN and the National Assembly began to grumble about the deficit publicly, and even floated the possibility of instituting deficit-reducing mechanisms such heightened technical barriers and promoting import substitution. The IMF has also noted the impact of the rising trade deficit on the growing current account deficit.

#### VIETNAM EXPORTS TO THE WORLD

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¶15. The value of Vietnam's total exports of goods in 2007 was \$48.4 billion, up 21.6 percent from the \$39.8 billion 2006 total. In 2007, total exports accounted for an even higher rate of the country's GDP, at 68 percent up from 65 percent in 2006. Vietnam's main export earners in 2007 were, in order of value, crude oil, garments, footwear, fishery products and wood products. This order was unchanged from 2006.

¶16. Crude oil exports were \$8.48 billion in 2007, and continued to be Vietnam's top export earner despite an eight percent decrease in production from 2006. The GVN is reviewing its regulations concerning hydrocarbons exports because of high domestic demand and rising international prices. In early 2008, the GVN banned coal exports indefinitely, and has discussed doing the same with gas.

¶17. Garment exports were \$7.78 billion in 2007, an increase of 33 percent over 2006 (\$5.83 billion). The United States was by far the largest market for Vietnam garment exports, taking up 57 percent of total Vietnamese garment exports at a total value of \$4.5 billion. The Vietnamese garment industry had two major concerns in 2007: that the United States would self-initiate an anti-dumping case against Vietnam, de deterring growth in the sector, and the high cost of imports for raw materials, which amount to three quarters of their total earnings.

¶18. Footwear exports were Vietnam's third most important export in 2007, at \$3.96 billion, up 10 percent from 2006's \$3.59 billion. This industry also decries that the dependence on imported input materials eats into their profit margins.

¶19. Other major Vietnamese exports also experienced double-digit growth from 2006, including fishery products (up 13 percent, from \$3.36 billion to \$3.79 billion) and finished wood products (up 22 percent, from \$1.93 billion to \$2.36 billion).

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¶20. Electronics exports, up 28 percent in 2007 from \$1.71 billion to \$2.18 billion, are important for a sector that the GVN is keen to develop further. In 2007 Vietnam was successful in attracting foreign electronic firms to set up operations in Vietnam, including a \$5 billion investment by Taiwan's computer-maker Foxconn and a \$200 million semiconductors assembly plant by a U.S. investor.

¶21. Earnings from agricultural exports (not including fisheries) also increased considerably from 2006 and, taken as a whole, they would surpass crude oil as the Vietnam's top export earner. Agricultural exports rose to \$12.6 billion from \$10.5 billion in 2006, an increase of 20 percent. Vietnam is the world's top exporter of pepper, cashew nuts and robusta coffee, and the world's second largest rice exporter. Vietnam benefited from rising international commodity prices and, in some cases, revenues were up even though volume decreased from 2006 to 2007. For example, rice and pepper export volumes in 2007 were down three percent and 27 percent from 2006, but revenues still went up by 14 percent and 48 percent, respectively.

#### IMPORT OF GOODS

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¶22. The value of goods imported into Vietnam was \$60.8 billion in 2007, an increase of over 35 percent from the \$44.9 billion total in

¶12006. Most of Vietnam's imports consist of raw materials for its manufacturing industry, which account for 66 percent of all imports.

Imports of steel rose 66 percent in 2007 to \$4.9 billion. Vietnam registered other double digit increases in imports of textiles (\$4 billion), plastics (\$2.5 billion), wood (\$1 billion), yarn (\$744 million) and cotton (\$267 million).

¶123. Industrial and agricultural machinery (\$10.38 billion in 2007) constitute Vietnam's second largest category import category, accounting for 26 percent of all imports in goods. Refined oil imports amounted to \$7.5 billion in 2007, an increase of 26 percent.

¶124. Despite tariff reductions brought on in part by WTO accession in January 2007, import of consumer goods was modest -- "a humble figure," in the eyes of Deputy Minister of Industry and Trade Nguyen Cam Tu. According to the Trade Ministry, consumer goods imports in 2007 were \$2 billion, up from \$1.15 billion in 2006. Automobile imports, however, rose briskly by 49 percent from \$971.6 million in 2006 to \$ 1.4 billion in 2007. Analysts credit rising incomes and tariff reductions on automobiles from 90 to 60 percent in 2007 for this trend, which is expected to continue into 2008.

#### TRADE IN SERVICES

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¶125. Taking into account services provided overseas and to foreigners in Vietnam, the GSO calculates that Vietnam's service exports were \$6.03 billion in 2007, up 18 percent from 2006 (\$5.1 billion). Over half of all service exports were tourism-related, constituting \$3.33 billion in 2007, up from \$2.85 billion in 2006. Vietnam had 4.2 million foreign tourists in 2007, according to the Ministry of Foreign Affairs, an increase from the 3.58 million foreign visitors in 2006. U.S. citizens were the third largest group of visitors to Vietnam in 2007 with 412,301 arrivals, after China (558,719) and South Korea (475,535).

¶126. The Vietnamese financial sector does not have a significant presence overseas, but services provided to foreigners --including foreign investors-- accounted for \$332 million in 2007, compared to \$270 million the previous year.

¶127. Other export service sectors, including maritime and air transportation, also increased in 2007. International post and telecommunications services, however, were the only sectors that failed to best the 2006 numbers, falling by 17 percent.

¶128. Imports of services amounted to \$6.4 billion in 2007, a 25 percent increase over 2006 (\$5.12 billion). As in services exports, the most significant was tourism, making up almost 20 percent of all services imports. Vietnamese traveling overseas spent \$1.22 billion in 2007, an increase over the \$1.05 billion spent in 2006. Other major services imports were air transportation (13 percent of all service imports) and financial services (4.7 percent), posted growth of 17 percent and 11 percent, respectively.

#### VIETNAM'S OTHER TRADING PARTNERS

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¶129. China continued to be Vietnam's largest trading partner in 2007, with \$15.86 billion in bilateral trade. Trade with China grew by 52% in 2007, fueled by a 69% rise in Chinese exports to Vietnam. China enjoys a trade surplus with Vietnam, exporting \$12.5 worth of goods, including primary materials to fuel Vietnam's economic expansion, including construction materials, industrial machinery, chemicals and pharmaceuticals, refined oil, fertilizers and vehicles and vehicle parts. In 2007 Vietnam exported goods worth \$3.36 billion to China, including crude oil, coal, coffee, fishery products, fruits and vegetables and footwear.

¶130. Japan is Vietnam's second largest trade partner with \$12.25 billion of bilateral trade in 2007, according to numbers compiled by the Vietnamese Embassy in Tokyo. Japan turned a \$532 million trade deficit with Vietnam in 2006 into a \$109 million surplus in 2007.

Vietnam's exports to Japan in 2007 were \$6.07 billion (up 16 percent from the \$5.23 billion total in 2006), while Japanese exports to Vietnam were \$6.18 billion (up 31 percent from the \$4.7 billion total in 2006).

¶31. Vietnam exports to Japan included crude oil (\$1 billion), garment and textiles (\$835 million), electricity cables (763 million), fishery products (\$555 million), finished wood products (\$229 million) and footwear (\$181 million). In ongoing trade agreement negotiations, Vietnam is pushing Japan to loosen import restrictions on agricultural and fishery products. Most of Japan's exports to Vietnam were destined to the manufacturing sector, including steel, electronics, vehicles, machinery, and textiles. Japan's exports increased by 31 percent from 2006 (\$4.70 billion).

¶32. Singapore is Vietnam's fourth largest trading partner, with total trade in goods in 2007 of \$9.81 billion (up from \$7.8 billion in 2006). Vietnam's main exports to Singapore included crude oil, rice, pepper, fishery products, footwear and garments, at a total value of \$2.2 billion (from \$1.63 billion in 2006). Singaporean exports to Vietnam included refined oil, chemicals, industrial machinery and fertilizers, at a total value of \$7.61 billion (from \$6.27 billion in 2006).

¶33. Taiwan is Vietnam's fifth largest trading partner, with total trade in 2007 amounting to \$8.06 billion. Two-way trade between the two in 2006 was \$5.78 billion. Vietnam imported petroleum, textiles, industrial machinery, steel, textiles and plastics at a total of \$6.92 billion (up percent from 2006), while Taiwan imported garments, fishery products and ceramic wares, at a total of \$1.14 billion (up 18 percent from 2006).

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